

Message Text

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C O N F I D E N T I A L LIMA 2943

EXDIS

E.O. 11652: GDS
TAGS: EFIN PE
SUBJ: PERU'S FINANCIAL CRISIS: FOREIGN MINISTER'S MISSION TO
THE U.S.

REF: (A) LIMA 2866; (B) STATE 037906

SUMMARY: MORALES BERMUDEZ HAS WRITTEN PRESIDENT CARTER ASKING HIM TO RECEIVE FOREIGN MINISTER DE LA PUENTE IN WASHINGTON TO DISCUSS PERU'S FINANCIAL CRISIS. THE DATE WAS LEFT OPEN BUT THE MINISTER BELIEVES THERE MUST BE A SOLUTION TO THE CRISIS THIS MONTH. PERU SEEKS OUR SUPPORT FOR RESCHEDULING ITS DEBT AND PERSUADING THE IMF TO RELAX SOME OF THE STANDBY REQUIREMENTS. THE GOP IS ASKING THE IADB TO ORGANIZE THE RESCHEDULING IN WHICH THE GOAL WILL BE TO STRETCH OUT MATURITIES COMING DUE THROUGH 1980 WHILE PAYING INTEREST CURRENTLY. A PACKAGE IS BEING PREPARED FOR SUBMISSION TO THE IMF BUT IT WILL NOT IMMEDIATELY MEET ALL THE REQUIREMENTS OF THE STANDBY. I RECOMMEND THAT WE RESPOND QUICKLY TO THE GOP. THE PERUVIANS HAVE ALREADY PROCRASTINATED FAR TOO LONG. IF THE PRESIDENT CANNOT SEE DE LA PUENTE, I HOPE THE SECRETARY AND SECRETARY BLUMENTHAL WILL BE ABLE TO RECEIVE HIM. END SUMMARY.

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1. I CALLED AT MY REQUEST QPRIL 5 ON THE FOREIGN MINISTER TO DELIVER THE SECRETARY'S LETTER ON THE ECUADOREAN BORDER DISPUTE. BEFORE WE COULD GET TO THAT BUSINESS -- ON WHICH I SHALL REPORT BY SEPTTEL -- DE LA PUENTE LAUNCHED INTO AN EXPOSITION OF HIS PLAN TO HEAD A FINANCIAL MISSION TO THE U.S. HE SAID GARCIA BEDOYA CARRIED BACK WITH HIM A LETTER FROM MORALES BERMUDEZ TO PRESIDENT CARTER ASKING THAT OUR PRESIDENT RECEIVE DE LA PUENTE (AND APPARENTLY FINANCE MINISTER SAENZ) IN WASHINGTON TO DISCUSS PERU'S FINANCIAL CRISIS. THE

MINISTER PROMISED TO PROVIDE ME WITH A COPY OF THE LETTER LATER.

2. IN RESPONSE TO MY QUESTIONS, DE LA PUENTE SAID HE WOULD PRESENT TO THE PRESIDENT A "GLOBAL VIEW" OF PERU'S PROBELSM WITH A VIEW TO ENLISTING OUR SUPPORT IN RESCHEDULING THE COUNTRY'S DEBT AND, ABOVE ALL, OUR HELP IN PERSUADING THE IMF THAT SOME OF THE TERMS OF THE STANDBY MUST BE RELAXED IF A "SOCIAL EXPLOSION" IS TO BE AVOIDED. THE MINISTER REFERRED TO HIS RECENT SPEECH IN GENEVA AND OTHER PUBLIC STATEMENTS IN WHICH HE HAS ARGUED THAT THERE SHOULD BE A LIMIT OF 25 PERCENT OR SO OF EXPORT RECEIPTS ON DEVELOPING COUNTRIES' DEBT SERVICE. HE SAID THE GOP IS THINKING OF STRETCHING OUT GOVERNMENT-TO-GOVERNMENT AND PRIVATE BANK AMORTIZATIONS OF PRINCIPAL DUE THROUGH 1980 OVER PERHPAS SEVEN YEARS, WHILE MAKING ALL INTEREST PAYMENTS ON A CURRENT BASIS. (SERVICE ON EXTERNAL PUBLIC DEBT THIS YEAR AMOUNTS TO \$285 MILLION IN INTEREST AND \$603 MILLION IN PRINCIPAL ACCORDING TO THE "QUESTIONNAIRE" GARICA BEDOYA IS CARRYING BAC WITH HIM -- SEE BELOW.)

3. DE LA PUENTE SAID THE GOP IS AKING THE INTER-CONFIDENTIAL

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AMERICAN DEVELOPMENT BANK TO TAKE THE LEAD IN ARRANGING THE DEBT-RESCHEDULING EXERICSE AND MORALES BERMUDEZ HAS SENT A LETTER TO ORTIZ MENA TO THAT EFFECT. THE GOP SEES THE FRENCH AS BASICALLY UNSYMPATHETIC AND THEREFORE DOES NOT WANT TO GO TO PARIS. THE MINISTER ASSERTED THAT ORTIZ MENA HAD INDICATED TO HIM PREVIOUSLY THAT THE IADB WOULD BE HELPFUL ON THE DEBT PROBLEM. I ONLY NOTED MY UNDERSTANDING THAT CITIES OTHER THAN PARIS COULD SERVE AS THE VENUE FOR RESCHEDULING CONFERENCES. DE LA PUENTE ADDED THAT NEGOTIATIONS WITH THE BANKS WOULD TAKE PLACE ON A PARALLEL BASIS.

4. I ASKED WHAT THE GOP INTENDED TO DO ABOUT THE IMF. THE MINISTER CONCEDED THAT WOULD BE THE FIRST QUESTION ASKED OF HIM IN WASHINGTON. HE SAID THE GOP DOES NOT WANT TO "BREAK" WITH THE FUND AS HE ASSERTED PORTUGAL IS DOING. A "PACKAGE" IS BING PREPARED NOTABLY INCLUDING A REDUCTION OF SOLES 30 BILLION IN THE ANTICIPATED GOVERNMENT BUDGET DECICIT. (THIS IS SET FORTH IN GARICA BEDOYA'S "QUESTIONNAIRE".) DE LA PUENTE THOUGHT THAT PERHAPS SAENZ SHOULD GO TO WASHINGTON IN ADVANCE OF HIS OWN TRIP TO PRESENT THE PACKAGE TO THE FUND. HE (DE LA PUENTE) WOULD THEN CONDUCT THE FINAAL NEGOTIATIONS WITH THE FUND -- AND WITH THE PRIVATE BANKS. (COMMENT: THE MINISTER WAS CHARACTERISTICALLY VAGUE BUT I GATHER THE IDEA IS TO SEEK WITH OUR SUPPORT A WAIVER OF SOME OF THE STANDBY TERMS --

REF B). ON GASOLINE DE LA PUENTE INDICATED THAT A PRICE ADJUSTMENT MIGHT BE POSSIBLE AT SOME POINT BUT SAID HE PERSONALLY FAVORED RETURNING TO THE SYSTEM USED HERE PREVIOUSLY OF CUTTING CONSUMPTION BY LIMITING THE CIRCULATION OF PRIVATE VEHICLES. (IN EFFECT HALF THE CARS OF LIMA WERE ALLOWED OUT ONE DAY AND THE OTHER HALF THE NEXT. THOSE WHO COULDAFFORD IT BEAT THE SYSTEM BY BUYING TWO CARS, BUT AUTOMOBIEL PRICES ARE MUCH HITHER NOW.)

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5. I ASKED THE MINISTER IF THE LETTER TO PRESIDENT CARTER INDICATED A DATE FOR HIS TRIP. HE SAID NATURALLY NOT, THAT IT WOULD BE AT THE CONVENIENCE OF THE PRESIDENT BUT THAT A SOLUTION TO THE PROBLEM MUST BE FOUND THIS MONTH. PERU IS RUNNING OUT OF MONEY AND THE PRIVATE SECTOR IN PARTICULAR MUST HAVE "RELIEF". DE LA PUENTE THEN SAID THAT THE DEPARTMENT HAD INDICATED A DESIRE TO HELP PERU AND HAD GIVEN GARICA BEDOYA A QUESTIONNAIRE SEEKING INFORMATION ON VARIOUS ASPECTS OF THE DEVT SITUATION, RELATIONS WITH TE FUND AND THE LIKE. THE GOP WAS ENCOURAGED BY THIS INTEREST AND HAD RESPONDED WITH DETAILED ANSWERS. DE LA PUENTE GAVE ME A COPY OF THE COMPLETED QUESTIONNAIRE BUT CAUTIONED THAT HE COULD NOT ABSOLUTELY GUARANTEE EACH AND EVERY FIGURE, RECALLING THE INACCURANCIES THAT CROPPED UP IN THE GOP'S REPORTING TO THE FUND. HE ADDED A NUMBER OF DEPRECATORY REMARKS ABOUT THE MINISTRY OF FIANCNE, THE CENTRAL BANK, STATE ENTERPRISES AND UNNAMED MINISTERS WHO REFUSED TO REDUCE PERSONNEL. HE ASSERTED THAT WE COULD COUNT ON HIM TO TELL THE TRUTH SINCE HE LEARNED LONG AGO THAT "THE TRUTH NEVER HURTS".

6. COMMENT: I WAS CAREFUL TO AVOID ANY COMMENT ON EITHER THE PROPOSED MISSION TO WASHINGTON OR THE GOP'S DECISION TO SEEK RESCHEDULING. IT DOES SEEM CLEAR THAT THE GOP, AFTER A YEAR OF PROCRASTINATION AND FACED WITH AN INCREASINGLY TENSE LABOR SITUATION (A NEW HUNGER STRIKE IN UNDERWAY IN AREQUIPA), NOW HAS NO CHOICE OTHER THAN TO SEEK RESCHEDULING. BUT SENDING THE FOREIGN MINISTER TO WASHINGTON ON WHAT AMOUNTS TO A POLITICAL MISSION SEEMS A RATER DESPERATE SCHEME AND UNLIKELY TO ACCOMPLISH MUCH. (I UNDERSTAND THAT GARCIA

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BEDOYA AND OTHERS OF HIS COLLEAGUES WARNED DE LA PUENTE AGAINST AGREEING TO GO).

7. NEVERTHELESS, AN UNDERSTANDING AND REASONABLY SYMPATHETIC ATTITUDE ONOUR PART STRIKES ME AS DESIRABLE AT

THIS JUNCTURE. THE GOP NEEDS ALL THE SUPPORT -- EVEN MORAL SUPPORT -- IT CAN GET TO MAKE IT THROUGH TO ELECTIONS ALTHOUGH I HOPE WE ARE CAREFUL NOT TO RAISE UNDUE EXPECTATIONS. (WE HAVE IT ON FAIRLY GOOD AUTHORITY, AND WILL BE REPORTING THROUGH OTHER CHANNELS, THAT SERIOUS CONSIDERATION IS BEING GIVEN IN THE CABINET AND THE HIGHEST MILITARY LEVELS TO RECONSTITUTING THE GOVERNMENT IN AUGUST, BRING IN CIVILIANS AND ALLOWING MORALES BERMUDEZ TO FUNCTION AS A REAL PRESIDENT RATHER THAN THE REPRESENTATIVE OF THE ARMED FORCES. THAT WOULD BE A STEP IN THE RIGHT DIRECTION.)

8. IF THE PRESIDENT IS UNABLE TO SEE DE LA PUENTE, I HOPE WE CAN OFFER HIM A MEETING WITH THE SECRETARY AND WITH SECRETARY BLUMENTHAL. IT IS ALSO IMPORTANT IN MY OPINION THAT WE RESPOND QUICKLY, EVEN IF ONLY INFORMALLY. THE CLOCK IS TICKING DOWN.
SHLAUDEMANN

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